

City of Des Moines, Iowa Municipal Housing Agency

Financial and Compliance Report
Year Ended June 30, 2010

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Independent Auditor's Report

To the Public Housing Board and the
Honorable Mayor and Members of the City Council
City of Des Moines, Iowa
Des Moines, Iowa

We have audited the accompanying financial statements of the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund of the City of Des Moines, Iowa, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Public Housing Board and City of Des Moines, Iowa's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund of the City of Des Moines, Iowa, and do not purport to, and do not, present fairly the financial position of the City of Des Moines, Iowa as of June 30, 2010, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Because the financial statements present only the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund, and do not purport to, and do not present the financial statements of the City of Des Moines, Iowa, management has chosen not to present a Management's Discussion and Analysis for the fund.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund of the City of Des Moines, Iowa, as of June 30, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2010 on our consideration of the City of Des Moines, Iowa Municipal Housing Agency's, an enterprise fund of the City of Des Moines, Iowa, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The other postemployment benefit plan schedule of funding progress on page 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund of the City of Des Moines, Iowa, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

McGladrey & Pullen, LLP

Davenport, Iowa
November 30, 2010

City of Des Moines, Iowa
Municipal Housing Agency

Statement of Net Assets
June 30, 2010

Assets

Current assets:

Cash and pooled cash investments	\$ 2,888,922
Restricted cash and cash equivalents	675,302
Due from other governmental units	413,841
Accounts receivable (net of allowance for doubtful accounts of \$41,046)	37,220
Inventories	61,702
Prepaid items	139,729
Total current assets	4,216,716

Noncurrent assets:

Capital assets:

Nondepreciable, land	1,467,560
Depreciable:	
Buildings	31,421,284
Improvements other than buildings	5,832,693
Machinery and equipment	1,254,713

39,976,250

Less accumulated depreciation

25,548,695

Total capital assets

14,427,555

Restricted cash and cash equivalents

13,509,670

Total noncurrent assets

27,937,225

Total assets

32,153,941

Liabilities

Current liabilities:

Accounts payable	52,787
Accrued payroll	137,387
Due to other funds of the City of Des Moines, Iowa	66,478
Compensated absences	98,599
Tenant security deposits	80,845
Unearned revenues	20,049
Total current liabilities	456,145

Noncurrent liabilities:

Self-sufficiency participation	87,273
Compensated absences	201,593
Post employment benefits	73,408
Total noncurrent liabilities	362,274

Total liabilities

818,419

Net Assets

Invested in capital assets	14,427,555
Restricted for public housing program	13,509,670
Restricted for housing assistance payments	675,302
Unrestricted	2,722,995
Total net assets	\$ 31,335,522

See Notes to Financial Statements.

City of Des Moines, Iowa
Municipal Housing Agency

Statement of Revenues, Expenses and Change in Net Assets
Year Ended June 30, 2010

Operating revenues:	
Dwelling rental	\$ 1,080,940
Intergovernmental	16,815,446
Charges for services	1,055,211
Total operating revenues	<u>18,951,597</u>
Operating expenses:	
Personal services	4,440,748
Contractual services	16,232,005
Depreciation	1,519,738
Total operating expenses	<u>22,192,491</u>
Operating (loss)	<u>(3,240,894)</u>
Nonoperating revenues:	
Investment earnings	10,680
Gain on sale of capital assets	68,815
Nonoperating revenues	<u>79,495</u>
Capital grants	<u>2,422,325</u>
Change in net assets	(739,074)
Net assets, beginning	32,074,596
Net assets, ending	<u><u>\$ 31,335,522</u></u>

See Notes to Financial Statements.

City of Des Moines, Iowa
Municipal Housing Agency

Statement of Cash Flows
Year Ended June 30, 2010

Cash flows from operating activities:	
Cash received from rents and operating grants	\$ 18,888,052
Cash paid to suppliers	(16,486,523)
Cash paid to employees	(4,340,103)
Net cash (used in) operating activities	<u>(1,938,574)</u>
Cash flows from noncapital financing activities, payments on interfund accounts	<u>(207,898)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(1,908,736)
Capital grants	2,422,325
Proceeds from the sale of capital assets	481,729
Net cash provided by capital and related financing activities	<u>995,318</u>
Cash flows from investing activities, interest collected	<u>10,680</u>
Net (decrease) in cash and cash equivalents	(1,140,474)
Cash and cash equivalents, beginning	18,214,368
Cash and cash equivalents, ending	<u><u>\$ 17,073,894</u></u>
Reconciliation of operating (loss) to net cash (used in) operating activities:	
Operating (loss)	\$ (3,240,894)
Adjustments to reconcile operating (loss) to net cash	
(used in) operating activities:	
Depreciation	1,519,738
Decrease (increase) in:	
Accounts receivable	(8,413)
Due from other governmental units	(72,432)
Inventories	(12,000)
Prepaid items	(116,152)
Increase (decrease) in:	
Accounts payable	(126,366)
Accrued payroll	(2,210)
Compensated absences	79,266
Tenant security deposits	10,464
Other liabilities, self-sufficiency participation	4,701
Unearned revenue	2,135
Other postemployment benefits	23,589
Net cash (used in) operating activities	<u><u>\$ (1,938,574)</u></u>

See Notes to Financial Statements.

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 1. Nature of Business and Reporting Entity and Summary of Significant Accounting Policies

Nature of business and reporting entity:

The City of Des Moines, Iowa Municipal Housing Agency is an enterprise fund of the City of Des Moines, Iowa. The Agency was originally created as the Des Moines Public Housing Authority in 1969 as a separate legal entity in accordance with the laws of the state of Iowa. Effective April 1, 1994, the Des Moines City Council reorganized the Des Moines Public Housing Authority as a business-type fund of the City of Des Moines, Iowa renaming it the City of Des Moines, Iowa Municipal Housing Agency (Agency).

The Agency is not a legally separate entity. The Agency is an enterprise fund and business-type activity of the City of Des Moines, Iowa (the primary government) and the City assumes all rights, titles, interests, duties, covenants, obligations and liabilities of the Agency. Management decisions are the responsibility of the City Council, designated City employees and a seven member advisory board.

The purpose of the Agency is to administer the public housing programs authorized by the United States Housing Act of 1937, as amended. These programs are subsidized by the Federal Government through the U.S. Department of Housing and Urban Development (HUD).

Summary of significant accounting policies:

Basis of accounting and measurement focus: The economic measurement focus and the accrual basis of accounting is used by the Agency. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recognized when the liability has been incurred. Under this basis of accounting, all assets and all liabilities associated with the operation of the Agency are included in the statement of net assets.

Proprietary fund type: The City of Des Moines, Iowa Municipal Housing Agency is a proprietary fund type. Proprietary funds are used to account for a government's business-type activities, which are similar to those often found in the private sector. The measurement focus is based upon income determination, financial position and cash flows. The Agency, as an enterprise fund, has elected to apply all applicable Financial Accounting Standards Board (FASB) pronouncements on or issued before November 30, 1989, unless the pronouncements conflict with or contradict Governmental Accounting Standards Board Statements. The Authority has elected not to apply FASB guidance subsequent to November 30, 1989.

Accounting estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and pooled cash equivalents: For purposes of reporting cash flows, the Agency considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 1. Nature of Business and Reporting Entity and Summary of Significant Accounting Policies (Continued)

The Agency's deposits may be invested in the following HUD approved investments:

- Direct obligations of the federal government backed by full faith and credit of the United States
- Obligations of government agencies
- Securities of government sponsored agencies
- Demand and savings deposits
- Time deposits and repurchase agreements

Investments are reported at fair value. Securities traded on the national or international exchange are valued at the last reported sales price at current exchange rates. The cash and pooled cash equivalents consisted of checking accounts and savings accounts for the current year.

Inventories: Inventories are stated at cost and recorded as an expense at the time they are relieved from inventory for use. Inventories are valued on the first-in, first-out basis.

Compensated absences: Agency employees participate in benefit plans offered by the City of Des Moines, Iowa and, accordingly, accumulate sick leave hours for subsequent use or for payment upon death or retirement. Sick leave is payable when used, or upon death or retirement. If paid upon death or retirement, the total accumulated hours are paid at one-half of the then effective hourly rate for that employee. These compensated absences are accrued as a liability as they are earned.

Capital assets: Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$500 and an initial useful life of one year or greater. All appliances are capitalized regardless of threshold as required by HUD. Capital assets of the Agency are stated at cost. Depreciation has been provided using the straight-line method over the estimated useful lives, as follows:

Buildings	40 years
Building improvements	10 years
Improvements other than buildings	10-15 years
Machinery and equipment	3-10 years

Operating and nonoperating revenues and expenses: Operating revenues result from exchange transactions of housing agency activities. Nonoperating revenues result from nonexchange transactions such as investment earnings and capital grants. Expenses associated with operating the housing agency are considered operating.

Net assets: Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by any outstanding balances of any borrowings, used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Agency first applies restricted resources. \$14,184,972 of net assets is restricted as of June 30, 2010. Of the restrictions, \$13,509,670 is on the cash generated from the sale of public housing properties and \$675,302 is for housing assistance payments. Proceeds from property sales are required by HUD to be reinvested in public housing properties.

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 2. Cash and Pooled Cash Equivalents

As of June 30, 2010, the Agency's deposits consisted of checking accounts and savings accounts. The Agency has no investments.

The Agency follows the City of Des Moines, Iowa's investment policy.

Authorized investments: The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved pursuant to Chapter 12C, Code of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. However, the City's investment policy additionally limits investments in commercial paper to obligations at the time of purchase rated within the two highest ratings, issued by nationally recognized statistical rating organizations with a maturity less than 270 days, provided that at the time of purchase no more than 10 percent of the investment portfolio be invested in commercial paper and no more than 5 percent of the investment portfolio shall be invested in securities of a single issuer. It also limits investments in prime bankers' acceptances to those that mature within 270 days and that are eligible for purchase by a federal reserve bank, provided that at the time of purchase no more than 5 percent of the investment portfolio shall be invested in the securities of a single issuer.

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Agency has no investments.

Custodial credit risk: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned.

As of June 30, 2010, the carrying amount of the Agency's deposits was \$17,073,894 and the bank balance was \$17,217,636 which was entirely covered by federal depository insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to ensure there will be no loss of public funds.

Note 3. Capital Assets

The following is a summary of changes in capital assets for the year ended June 30, 2010:

	June 30, 2009	Additions	Retirements	June 30, 2010
Nondepreciable assets, land	\$ 1,467,560	\$ -	\$ -	\$ 1,467,560
Depreciable assets:				
Buildings	30,295,182	1,721,667	(595,565)	31,421,284
Improvements other than buildings	5,682,083	150,610	-	5,832,693
Machinery and equipment	1,246,881	36,459	(28,627)	1,254,713
Total depreciable assets	37,224,146	1,908,736	(624,192)	38,508,690
Less accumulated depreciation for:				
Buildings	17,911,705	1,383,918	(184,017)	19,111,606
Improvements other than buildings	5,211,988	87,575	-	5,299,563
Machinery and equipment	1,116,542	48,245	(27,261)	1,137,526
Total accumulated depreciation	24,240,235	1,519,738	(211,278)	25,548,695
Capital assets, net	\$ 14,451,471	\$ 388,998	\$ (412,914)	\$ 14,427,555

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 4. Forgivable Loans

The Home Ownership Program (5H) is intended to provide affordable home acquisition loans to eligible low-income families wishing to purchase designated single-family scattered site homes offered by the Agency. The homes are sold at fair value and are financed by conventional loans by area financial institutions. The down payment is financed by the Agency with a forgivable interest free loan to the purchasers. A portion of the loan is forgiven upon closing. The balance is forgiven over the next seven years. If the purchaser defaults on the terms of the forgivable loan, it will become due at the time of default with interest.

As of June 30, 2010, the unforgiven portion of forgivable loans was \$1,741,565. This amount is fully reserved as of June 30, 2010 as the City does not anticipate collection.

Note 5. Pension Plan

The Agency contributes, with other funds of the City, to the Iowa Public Employees Retirement System (IPERS) which is a cost sharing, multiple-employer defined benefit pension plan administered by the state of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.30 percent of their annual covered salary and the Agency is required to contribute 6.65 percent of annual covered payroll. Contribution requirements are established by state statute. The Agency's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 was \$138,293, \$135,688 and \$219,168, respectively, which was equal to the required contribution for each year.

Note 6. Deferred Compensation

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan, available to all City employees, permits an employee to defer a portion of his or her compensation until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In accordance with Federal legislation (the Small Business and Wage Protection Act of 1996), the City has confirmed or established trust arrangements for all of the assets in the plan, to ensure those assets are protected and used exclusively for plan participants and beneficiaries. As a result of these arrangements, the deferred compensation plan is not reported in the Agency's financial statements.

Note 7. Postretirement Benefits

Plan description: The City sponsors a single-employer health care plan that provides medical, prescription drugs and dental benefits to all active and retired employees and their eligible dependents. Employees who have attained age 55 and retire from active employment are eligible for retiree benefits. Eligible retirees and their dependents receive medical and prescription coverage through a fully insured plan with Wellmark BCBS and dental benefits through a self-insured plan. These are the same plans that are available for active employees.

Contributions are required for both retiree and dependent coverage. The contributions for each insured group is assumed to be the expected, composite per capita cost for the group. This composite is then disaggregated into an age-specific starting cost curve based on the average age of the group and for assumptions for age-based morbidity. The average age of the pre-65 retiree group is 59. Retiree expenses are then offset by monthly contributions.

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 7. Postretirement Benefits (Continued)

Funding policy: The City of Des Moines establishes and amends contribution requirements.

The current funding policy of the City is to pay health insurance premiums as they occur. This arrangement does not qualify as other post employment benefits (OPEB) plan assets under Governmental Accounting Standards Board (GASB) Statement No. 45 for current GASB reporting.

The required contribution is based on projected pay-as-you-go financing. For fiscal year 2010, the Agency contributed \$2,353.

Annual OPEB Cost and Net OPEB Obligation: The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance to the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year as it pertains to the City of Des Moines, Iowa Municipal Housing Agency enterprise fund, the amount actuarially contributed to the plan, and changes in the Agency's annual OPEB obligation:

Annual required contribution	\$	26,758
Interest on net OPEB obligation		2,242
Adjustment to annual required contribution		(3,058)
Annual OPEB cost (expense)		25,942
Contributions and payments made		(2,353)
Increase in net OPEB obligation		23,589
Net OPEB obligation, July 1, 2009		49,819
Net OPEB obligation, June 30, 2010	\$	73,408

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2008	\$ 27,804	10.19%	\$ 24,971
June 30, 2009	28,928	14.10	49,819
June 30, 2010	25,942	9.07	73,408

Funded status and funding progress: As of July 1, 2009, the most recent actuarial valuation date, the plan was 0 percent funded. The Agency's portion of the City's actuarial accrued liability for benefits was \$169,590 and the actuarial value of assets is none resulting in an unfunded actuarial accrued liability (UAAL) of \$(169,590). The covered payroll (annual payroll of active employees covered by the plan) was \$3,072,826 and the ratio of the UAAL to the covered payroll was 5.5 percent.

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 7. Postretirement Benefits (Continued)

Actuarial estimates of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspectives of the calculations.

In the July 1, 2009 actuarial valuation, project unit credit method was used. The actuarial assumptions included a 4.5 percent discount rate and an annual health care cost trend rate of 9.5 percent reduced by decrements of .5 percent annually to an ultimate rate of 5 percent for medical and prescription costs for dental and related administrative costs. The UAAL is being amortized as an open level dollar. The amortization of UAAL is done over a period of 30 years.

Note 8. Noncurrent Liabilities

The following is a summary of changes in noncurrent liabilities for the year ended June 30, 2010:

	June 30, 2009	Additions	Decreases and Payments	June 30, 2010	Amount Due in One Year
Compensated absences including sick leave	\$ 220,926	\$ 86,539	\$ 7,273	\$ 300,192	\$ 98,599
Due to self-sufficiency participation	\$ 82,572	\$ 162,766	\$ 158,065	\$ 87,273	\$ -

The above liabilities will be liquidated with resources available from the Agency's operations.

Note 9. Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency carries commercial insurance for risks. The Agency contracts with reputable carriers and utilizes deductibles ranging from \$250 to \$2,500.

Settled claims have not exceeded available coverage in the past three years. There has been no significant reduction in insurance coverage from the prior year.

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 10. Contingencies

The Agency is involved in various legal actions arising in the ordinary course of business. The Agency is vigorously contending these legal actions and, in the opinion of the Assistant City Attorney, the Agency has adequate legal defenses with respect to these actions and does not believe that they will materially affect the Agency's financial position.

Note 11. New Pronouncements

As of June 30, 2010, the GASB has issued the following statements not yet implemented by the Agency. The statements which might impact the Agency are as follows:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, issued January 2010, will be effective for the Agency beginning with its year ending June 30, 2012. This Statement addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. GASB 57 amends GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.
- GASB Statement No. 59, *Financial Instruments Omnibus*, issued June 2010, will be effective for the Agency beginning with its year ending June 30, 2011. This Statement is intended to update and improve existing standards regarding financial reporting of certain financial instruments and external investment pools. Specifically, this Statement provides financial reporting guidance by emphasizing the applicability of SEC requirements to certain external investment pools, addressing the applicability of GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, and applying the reporting provisions for interest-earning investment contracts of GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

The Agency's management has not yet determined the effect these statements will have on the Agency's financial statements.

**City of Des Moines, Iowa
Municipal Housing Agency**

**Required Supplementary Information
Other Postemployment Benefit Plan**

SCHEDULE OF FUNDING PROGRESS

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Net Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over- funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2010	07/01/2009	\$ -	\$ 169,590	\$ 169,590	- %	\$ 3,072,826	5.5%
2009	07/01/2007	-	155,776	155,776	-	3,105,543	5.0
2008	07/01/2007	-	155,776	155,776	-	3,064,325	5.1

NOTE: Fiscal year 2008 is the transition year for GASB Statement No. 45

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of July 1, 2009.
Additional information follows:

1. The cost method used to determine the ARC is the Projected Unit Credit Actuarial Cost method.
2. There are no plan assets.
3. Economic assumptions are as follows: health care cost trend rates of 5.0-9.5 percent; discount rate of 4.5 percent.
4. The amortization method is open, level dollar.

**City of Des Moines, Iowa
Municipal Housing Agency**

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development		
Direct Programs:		
Public and Indian Housing	14.850	\$ 1,027,804
Lower Income Housing Assistance Program Moderate Rehabilitation	14.856	100,341
Section 8 Project-Based Cluster:		
Section 8 Housing Choice Vouchers	14.871	15,428,997
Section 8 Housing Choice Vouchers - VASH	14.871	215,612
		<u>15,644,609</u>
CFP Cluster:		
Public Housing Capital Fund	14.872	747,869
Public Housing Capital Fund - Operations	14.872	220,128
ARRA - Public Housing Capital Fund	14.885	1,455,108
		<u>2,423,105</u>
Resident Opportunity and Support Services	14.870	38,912
DHAP - IKE	14.IKE	8,656
Total U.S. Department of Housing and Urban Development		<u>19,243,427</u>
Total federal awards expended		<u>\$ 19,243,427</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

**City of Des Moines, Iowa
Municipal Housing Agency**

**Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010**

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund of the City of Des Moines, Iowa, for the year ended June 30, 2010. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies expended during the year is included in the schedule. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the fund's financial statements.

Note 2. Significant Accounting Policies

Revenue from federal awards is recognized when earned and expenses are recognized when the liability has been incurred.

**City of Des Moines, Iowa
Municipal Housing Agency**

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2010**

Finding Number	Comment	Status
Significant Deficiencies in Administering Federal Awards:		
09-III-A	The Agency did not ensure that vendors used for Public Housing Capital Fund program were not suspended or debarred from participation in federal programs.	Corrected
Compliance Finding in Administering Federal Awards:		
09-III-B	The Agency did not correctly add or select housing applicants from the waiting lists.	Corrected
09-III-C	The Agency is not in compliance with the Davis-Bacon requirements.	Corrected
09-III-D	The Agency is not in compliance with the reporting requirements.	Corrected



**Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

To the Public Housing Board and the
Honorable Mayor and Members of the City Council
City of Des Moines, Iowa
Des Moines, Iowa

We have audited the financial statements of the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund of the City of Des Moines, Iowa, as of and for the year ended June 30, 2010, and have issued our report thereon dated November 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Des Moines, Iowa Municipal Housing Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Des Moines, Iowa Municipal Housing Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Des Moines, Iowa Municipal Housing Agency's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Des Moines, Iowa Municipal Housing Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Public Housing Board, City Council, management, others within the entity and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Davenport, Iowa
November 30, 2010



**Independent Auditor's Report on Compliance with
Requirements That Could Have a Direct and
Material Effect on Each Major Program and on
Internal Control Over Compliance in Accordance with
OMB Circular A-133**

To the Public Housing Board and the
Honorable Mayor and Members of the City Council
City of Des Moines, Iowa
Des Moines, Iowa

Compliance

We have audited the compliance of the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund of the City of Des Moines, Iowa, with the types of compliance requirements described in the OMB Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of City of Des Moines, Iowa Municipal Housing Agency's major federal programs for the year ended June 30, 2010. The City of Des Moines, Iowa Municipal Housing Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Des Moines, Iowa Municipal Housing Agency's management. Our responsibility is to express an opinion on the City of Des Moines, Iowa Municipal Housing Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Des Moines, Iowa Municipal Housing Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Des Moines, Iowa Municipal Housing Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the City of Des Moines, Iowa Municipal Housing Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Des Moines, Iowa Municipal Housing Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Des Moines, Iowa Municipal Housing Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of the Public Housing Board, City Council, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Davenport, Iowa
November 30, 2010

**City of Des Moines, Iowa
Municipal Housing Agency**

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2010**

I. Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?
- Noncompliance material to financial statements noted?

☐ Yes ☒ No
☐ Yes ☒ None Reported
☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

☐ Yes ☒ No
☐ Yes ☒ None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☐ Yes ☒ No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
Section 8 Project-Based Cluster:	
14.871	Section 8 Housing Choice Vouchers
14.871	Section 8 Housing Choice Vouchers - VASH
CFP Cluster:	
14.872	Public Housing Capital Fund
14.872	Public Housing Capital Fund - Operations
14.885	ARRA - Public Housing Capital Fund

Dollar threshold used to distinguish between type A and type B programs: \$577,303

Auditee qualified as low-risk auditee?

☐ Yes ☒ No

(Continued)

**City of Des Moines, Iowa
Municipal Housing Agency**

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2010**

II. Findings Relating to the Financial Statements as Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

A. Significant Deficiencies in Internal Control Over Financial Reporting

None

B. Compliance Findings

None

III. Findings and Questioned Costs for Federal Awards

A. Internal Control

None

B. Compliance Findings

None